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Annual Investment Allowance ('AIA')

The Annual Investment Allowance ('AIA') gives most businesses a 100% allowance for capital expenditure on plant and machinery up to a specified amount. The AIA limit applies for a 12 month accounting period.

From 1 January 2016, the AIA limit was set at £200,000. From 1 January 2019, the AIA limit was temporarily extended for 2 years to £1,000,000. This limit will revert to £200,000 from 1 January 2021.

Where a business has a chargeable period that spans the date of reversion, transitional rules will apply. Consequently, careful consideration must be given to the timing of expenditure during the period including the reversion.

Transitional rules example - chargeable period spanning the date of reversion to £200,000

A business with a 12 month chargeable period from 1 April 2020 to 31 March 2021 will calculate its maximum AIA entitlement based on:

- a) the proportion of the period from 1 April 2020 to 31 December 2020, that is, $9/12 \times £1,000,000 = £750,000$ plus
- b) the proportion of the period from 1 January 2021 to 31 March 2021, that is $3/12 \times £200,000 = £50,000$

The business' maximum AIA for this transitional chargeable period will therefore be the total of (a) + (b) = $£750,000 + £50,000 = £800,000$.

However, in relation to (b) (the period falling on or after 1 January 2021), no more than £50,000 of the business' actual expenditure in that period will be eligible for the transitional AIA.

Consideration should therefore be given to bringing forward capital expenditure planned for the final three months of the year, incurring it prior to 1 January 2021 to ensure use of AIA is maximised. In the example above, AIA on expenditure incurred between 1 January 2021 and 31 March 2021 is limited to £50,000, with any excess expenditure qualifying instead for writing down allowances at 18% or 6%.

For capital allowances purposes, the rules governing the relevant expenditure date can be complicated. In most cases, it is the date on which there is a legal obligation to pay, but care should be taken with hire purchase items and non-standard agreements. If in doubt seek guidance in advance.

If you consider the above may be applicable to your business' circumstances, please contact your usual Chavereys contact who will be pleased to assist. Tel: 01795 594495 / enquiries@chavereys.co.uk

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